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The Economic Recovery Tax Act: Implications for State Finances

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Introduction

The passage of the Economic Recovery Tax Act (ERTA) in 1981 was the most significant alteration in our tax structure in over 40 years. Nearly everyone agreed that the effect of this legislation would be great, but it has been difficult to pinpoint the revenue losses or gains in specific states until recently. Most states have analyzed the impact of the act and have formulated revenue estimates. This is noteworthy, because during the past six months the picture has been changing rapidly. Nearly every state legislature has met and many have modified their state tax laws in response to the passage of ERTA. In addition, every state with the exception of Michigan, Alabama and Texas, completed their fiscal years on or before July 1. Therefore, accurate revenue data is available for fiscal 1982 (Table 1), and more clearly defined projected revenue estimates are available for fiscal years 1983 through 1986 (Tables 2-6).

In order to assess the economic impact of ERTA, tax administrators and budget directors in each state were surveyed for information on:

(1) Estimated gains or losses in revenue for both individual and corporate income taxes as a direct result of ERTA for fiscal years 1982 through 1986.

(2) The percentage of the general fund budget (exclusive of capital expenditure) represented by that gain or loss.

(3) What program areas or services will be affected as a result of revenue loss or gain directly attributable to ERTA. (Only a few states were able to trace reductions in specific program areas to the passage of ERTA; therefore, the results are incomplete.)

(4) Modifications in state law in response to ERTA.

(5) Whether new taxes have been imposed to compensate for ERTA.

(6) Which major provisions of ERTA will cause the greatest revenue loss to a particular state.

All 50 states responded to the survey. The first six tables demonstrate the fiscal impact of ERTA on state finances through fiscal 1986. Table 7 indicates which states couple their tax provisions for individuals and/or corporations to the federal tax code. This table also shows which states voluntarily comply with certain sections of the federal code. Several states have raised taxes during the current fiscal year, and Table 8 shows which have raised a specific tax to directly compensate for anticipated revenue losses attributable to ERTA. Following the tables is a state-by-state summary of supplemental data on the impact of ERTA.

In most cases the data received from budget offices and tax administrators in each state were compatible. However, in several instances estimates were significantly different. In these cases, the information from tax administrators is printed in Tables 1-6, and the conflicting figures under "Notes." This method does not suggest that one set of information is more accurate than another.

The Impact

The picture emerging from the survey of the states is clear: ERTA is a significant factor—along with federal aid cuts, high interest rates and a recession—in forcing the reduction of state programs and services. However, because 17 states have taken action to uncouple from the federal tax code, the staggering revenue losses initially projected for these states will not materialize.

Perhaps the most striking component of ERTA is the Accelerated Cost Recovery System (ACRS) provision of the act. Thirty-three states cited this as the greatest source of revenue loss. The total projected loss to the states through 1986 cannot be accurately calculated at this juncture because many state officials have not developed estimates that far in advance. Yet, we do know that the figure will easily reach several billion dollars.

Because ERTA's five most costly provisions (which account for nearly 95 percent of the total reduction) will not become completely effective until fiscal years 1984 and 1985, most state budgets have yet to feel the strain. The Accelerated Cost Recovery Provision, for example, will not fully affect revenue until fiscal 1987. Therefore, other states may yet join the growing list of state governments which have decided not to conform to federal provisions.

It should be noted, however, that the figures in the accompanying tables are lower than many projections made when the ERTA was adopted. This is because many states have either disconnected from the federal tax code or made substantive modifications in their state tax laws in order to avoid or diminish revenue losses.

Generally, the northern industrial states will experience the heaviest revenue losses. For example, New York temporarily modified its tax laws to disallow the federal accelerated cost recovery deductions (under Section 168 of the Internal Revenue Code) for purposes of the corporate franchise tax, the franchise taxes on banking and insurance corporations, and the State and City of New York personal income taxes. Yet, New York will lose more than any other state as a result of ERTA. Other states that will lose substantially under ERTA include Illinois, Pennsylvania, Florida, Michigan,

New Jersey and Ohio. A few of these states are looking at additional modifications in state laws or uncoupling entirely from the federal tax code. Officials in most states are beginning to realize that by 1986 federal corporation income taxes will be reduced by approximately 40 percent. If the states continue to conform to federal depreciation guidelines, in most cases their corporate tax revenue will be diminished by a similar proportion.

The news is not uniformly bad for all states, however. Six will gain moderately in net revenue as a result of ERTA. Iowa, Kentucky and Minnesota achieved this through selective modification of state tax laws. In Arizona, the tax reductions of ERTA would have boosted income tax revenue, but in 1982, the legislature voted to accept all the changes which ERTA made to both federal taxable income and federal adjusted gross income. Arizona will therefore lose net revenue until fiscal 1984. However, during the final two years of the act (fiscal 1985 and 1986), Arizona should recoup its losses.

Methods of dealing with ERTA have varied from state to state. At a time when both government and individuals are feeling the pinch as a result of the recession, 22 states have levied tax increases since the beginning of the year. However, only a handful of these increases can be traced directly to the revenue losses resulting from the passage of ERTA. Many states have modified their state tax laws as an alternate means of sustaining acceptable revenue levels. Others will continue to conform to the federal tax code in the hope that an upswing in the economy will generate additional revenue.

Although it is becoming easier to identify which states will benefit most under the new federal tax structure, additional adjustments may be forthcoming. The legislatures of several key states have not determined how they will ultimately adjust to ERTA. For example, in New Jersey, legislation that would uncouple the state from federal tax provisions has passed the New Jersey Assembly and is expected to receive consideration by the Senate later this year. The bill has the support of the governor and will likely be signed into law should the measure clear both houses. In Michigan, there is a bill in the legislature which would remove one of the most costly provisions of ERTA—the deduction for two-earner married couples. This measure also has the backing of the governor. Similar situations exist in several other states. Clearly, should legislation of this type be approved, the projected revenue estimates for fiscal 1983-86 would be considerably altered.

In conclusion it should be noted that several state agencies responding to our survey take the official position that the increased amount of disposable income resulting from federal tax reductions will stimulate the economy. This in turn will generate state revenues to offset any losses attributable to ERTA. Therefore, some projected revenue estimates tend to reflect this philosophy. Whether this scenario will be accurate is subject to debate, especially in light of continuing high interest rates and reductions in federal assistance to the states.

Key ERTA Provisions

Accelerated Cost Recovery System (ACRS). ERTA replaces the present system of depreciation with the Accelerated Cost Recovery System. Under this system, four predetermined depreciation periods are allowed for all personal property and one predetermined period is allowed for all real property. The following summarizes the five property classes and the allowable depreciation period for each class:

- *Three-year property*—autos, light duty trucks, research and experimental equipment, racehorses over two years old and other horses over 12 years old. Also, personal property with an Asset Depreciation Range (ADR) midpoint life of four years or less.
- *Five-year property*—all tangible personal property not included within 15-year, 10-year, or three-year recovery classes. This class contains most machinery and equipment.
- *10-year property*—public utility property with an ADR midpoint life greater than 18.5 but not greater than 25 years, railroad tank cars, mobile homes, and real property with an ADR midpoint life of 12.5 years or less (e.g. theme park structures).
- *15-year public utility property*—public utility property with an ADR midpoint life exceeding 25 years (except certain burners and boilers using coal as a primary fuel).
- *15-year real property*—all real property except theme park structures and certain other real property designated as 1245 property.

The ERTA has also created a "safe harbor lease provision" which guarantees that certain three-party financing lease transactions can qualify the nominal lessor to receive investment tax credits and capital cost recovery allowances.

Individual Retirement Accounts—ERTA modified the federal laws relating to IRAs in the following manner:

• *Limitation on Deductions*—increased the limitation or deduction to the lessor of $2,000 (formerly $1,500) or 100 percent or compensation (formerly 15 percent).

• *Limitation on Qualification*—expanded eligibility for IRAs to include those covered by a qualified employer plan, tax shelter annuity plan or governmental pension plan. In effect, nearly all employees are now eligible to establish IRAs.

• *Spousal IRAs*—increased the maximum deduction to the lesser of $2,250 (formerly $1,750) or 100 percent of an individual's annual compensation (formerly 15 percent). It should be noted that, under the act, the maximum must be reduced by the amount of contribution made to the individual's own IRA and the deduction for the individual's IRA or the spousal IRA cannot exceed $2,000.

• *Divorced Spouse*—provided that a divorced spouse is allowed a deduction for contributions to a spousal IRA established by the individual's former spouse at least five years before the divorce, if the former spouse contributed to the IRA for at least three of the five years preceeding the divorce. The amount of deduction is limited to the lesser of $1,125 or the sum of the taxpayer's compensation and alimony received during the year.

• *Voluntary Contribution to Qualified Employer Plan*—allowed employers to deduct, as IRA contributions, voluntary contributions to qualified employer plans.

Marriage Penalty Provision. The federal tax rate schedules provide that, at a given income level, the tax liability of a married couple is greater than the combined tax liability of two single individuals. ERTA includes a provision which allows two-earner married couples a deduction equal to 10 percent of the first $30,000 of earnings of the spouse with the lesser amount of earnings (maximum deduction of $3,000). The new deduction is phased so that a 5 percent deduction applied in 1982 (maximum deduction of $1,500) and a 10 percent deduction becomes effective in 1983.

Self-employed Retirement Savings (HR-10—KEOGH). Under previous federal law, a self-employed individual could contribute to a qualified plan the lesser of $7,500 or 15 percent of earned income. The contribution in any given year had to be at least the lesser of $750 (even if more than 15 percent of earned income) or 100 percent of earned income.

ERTA changes the federal law in 1982 and thereafter as follows:

1) The maximum contribution has been raised from $7,500 to $15,000. (The 15 percent of earned income limit was not changed.)

2) The amount of compensation which may be taken into account under a deferred benefit plan to determine annual benefit accruals is increased from $50,000 to $100,000.

3) The amount of compensation which can be taken into account to determine contributions to a KEOGH plan, a subchapter S plan, or to a SEP has been raised from $100,000 to $200,000.

4) A participant in a self-employed plan may also be a participant in an individual retirement account.

5) A new 10 percent tax penalty is imposed on premature distributions.

Individual Income Tax Reductions. ERTA provides cumulative, across-the-board reductions in individual income tax rates of 23 percent by 1984 on the following schedule:

1981	1¼ percent
1982	10 percent
1983	19 percent
1984	23 percent

Withholding changes take place on October 1, 1981, July 1, 1982 and July 1, 1983.

ERTA reduces the top marginal rate (applicable to the highest income group) from 70 percent to 50 percent (and, thus, the maximum effective rate on capital gains from 28 percent to 20 percent).

Charitable Contributions Deduction for Non-itemizers. For tax years 1982 through 1986, ERTA authorizes taxpayers who do not itemize and who take the standard deduction to receive a deduction for a specific percentage of their charitable contributions from gross income. The maximum deduction rises from 25 percent of the first $100 of contributions in 1982 to the full amount of the contribution in 1986. The percentage and dollar limits are:

	1982	1983	1984	1985	1986
Percentage	25	25	25	50	100
Contribution Limit	$100	$100	$300	50% of AGI	50% of AGI
Maximum Deduction	$25	$25	$75	—	—

The deduction is not available beyond 1986 unless specific action is taken by Congress.

Table 1

Projected Impact of ERTA on State Revenue (In Millions of Dollars)
Fiscal 1982

	Individual	Corporate	Net	Percent of General Fund Budget
Alabama	+10.9	-4.0	+6.9	+1.70
Alaska	NT	-2.6	-2.6	-0.06
Arizona	-3.4	-0.32	-3.7	Less than 1
Arkansas	0	0	0	0
California	0	0	0	0
Colorado	+16.9	-10.8	+6.1	+0.4
Connecticut	NT	0	0	0
Delaware	-1.5	-4.0	-5.5	-1.0
Florida	NT	-30.3	-30.3	-1.5
Georgia	0	0	0	0
Hawaii	-0.4	-1.15	-1.6	-0.15
Idaho	-5.3	-2.0	-7.3	-1.8
Illinois	-11.0	-60.0	-71.0	-1.0
Indiana	0	0	0	0
Iowa	+4.0	-6.5	-2.5	-0.3
Kansas	+2.0	-7.0	-5.0	-0.4
Kentucky	+1.2	0	+1.2	+0.03
Louisiana	+1.3	-5.3	-4.0	-0.1
Maine	-0.21	-0.68	-0.89	-0.15
Maryland	+3.0	0	+3.0	+M
Massachusetts	0	-4.0	-4.0	-0.08
Michigan	-21.0	-0.5*	-21.5*	-0.6
Minnesota	+29.2	0	+29.2	+0.6
Mississippi	-0.2	-1.8	-2.0	-0.2
Missouri	+11.2	-12.6	-1.4	-0.1
Montana	IRE	IRE	IRE	IRE
Nebraska	-25.4	-8.65	-34.0	-4.5
Nevada	NT	NT	NT	0
New Hampshire	NT	-M	-M	-M
New Jersey	-1.5	-18.0	-19.5	-0.5
New Mexico	-3.5	-1.5	-5.0	-0.5
New York	-5.0	-50.0	-55.0	-0.1
North Carolina	NA	-6.0	-6.0	-M
North Dakota	-0.5	0	-0.5	-0.1
Ohio	-3.8	-13.0	-16.8	-0.29
Oklahoma	+M	-5.8	-5.8	-M
Oregon	-M	-M	-M	-M
Pennsylvania	-4.0	-5.0	-9.0	-0.1
Rhode Island	0	-1.5	-1.5	-0.1
South Carolina	NA	NA	NA	NA
South Dakota	NT	NT	NT	0
Tennessee	NT	-4.0	-4.0	-0.2
Texas	NT	NT	NT	0
Utah	+1.0	-1.3	-0.3	-M
Vermont	-3.0	-0.8	-3.8	-1.4
Virginia	-3.8	-8.7	-12.5	-0.5
Washington	NT	NT	NT	0
West Virginia	-0.15	-0.2	-0.35	-0.03
Wisconsin	0	0	0	0
Wyoming	NT	NT	NT	0
Total Loss	93.6	278	337.3	
Total Gain	80.7	0	46.4	
Totals	-12.9	-278	-290.9	

Key: IRE—Incomplete Revenue Estimates
NT —No Tax
-M —Minute Loss
+M —Minute Gain
NA—Not Available
*—Michigan Single Business Tax

Table 2

Projected Impact of ERTA on State Revenue (In Millions of Dollars)
Fiscal 1983

	Individual	Corporate	Net
Alabama	+32.8	-7.1	+25.7
Alaska	NT	-5.1	-5.1
Arizona	+1.6	-5.4	-3.8
Arkansas	0	0	0
California	0	0	0
Colorado	+49.7	-23.1	+26.6
Connecticut	NT	0	0
Delaware	-6.5	-6.4	-12.9
Florida	NT	-66.0	-66.0
Georgia	0	0	0
Hawaii	-5.1	-4.7	-9.8
Idaho	-5.7	-6.0	-11.7
Illinois	-11.0	-63.0	-74.0
Indiana	-12.0	-17.0	-29.0
Iowa	+30.5	-10.0	+20.5
Kansas	+15.0	-18.0	-3.0
Kentucky	+15.3	0	+15.3
Louisiana	+11.1	-10.6	+0.5
Maine	-6.1	-3.6	-9.7
Maryland	-7.8	NA	-7.8
Massachusetts	0	-16.0	-16.0
Michigan	-70.0	-1.0*	-71.0*
Minnesota	+130.0	0	+130.0
Mississippi	-0.5	-4.5	-5.0
Missouri	+11.8	-29.7	-17.9
Montana	IRE	IRE	IRE
Nebraska	NA	NA	NA
Nevada	NT	NT	NT
New Hampshire	NT	NA	NA
New Jersey	-4.5	-39.0	-43.5
New Mexico	-2.5	-8.0	-10.5
New York	-70.0	0	-70.0
North Carolina	NA	-30.0	-30.0
North Dakota	-5.2	-0.7	-5.9
Ohio	-33.7	-37.5	-71.2
Oklahoma	-2.0	0	-2.0
Oregon	IRE	IRE	IRE
Pennsylvania	-11.0	-44.8	-55.8
Rhode Island	0	-5.0	-5.0
South Carolina	NA	NA	NA
South Dakota	NT	NT	NT
Tennessee	NT	0	0
Texas	NT	NT	NT
Utah	NA	NA	NA
Vermont	-7.2	-2.0	-9.2
Virginia	-30.1	-28.7	-58.8
Washington	NT	NT	NT
West Virginia	0	0	0
Wisconsin	0	0	0
Wyoming	NT	NT	NT
Total Loss	290.9	492.9	704.6
Total Gain	297.8	0	218.6
Totals	+6.9	-492.9	-486

Key: IRE—Incomplete Revenue Estimates
NT —No Tax
NA—Not Available
*—Michigan Single Business Tax
Note: Based on estimates from 32 states.

Table 3

Projected Impact of ERTA on State Revenue (In Millions of Dollars)
Fiscal 1984

	Individual	Corporate	Net
Alabama	NA	NA	NA
Alaska	NT	-7.8	-7.8
Arizona	+7.0	-8.8	-1.8
Arkansas	0	0	0
California	0	0	0
Colorado	NA	NA	NA
Connecticut	NT	0	0
Delaware	NA	NA	NA
Florida	NT	-112.9	-112.9
Georgia	0	0	0
Hawaii	-10.9	-8.7	-19.6
Idaho	-12.5	-13.0	-25.5
Illinois	-22.0	-188.0	-210.0
Indiana	-18.0	-28.0	-46.0
Iowa	NA	NA	NA
Kansas	+40.0	-40.0	0
Kentucky	+36.3	0	+36.3
Louisiana	+24.4	-16.6	+7.8
Maine	NA	NA	NA
Maryland	-17.6	NA	-17.6
Massachusetts	0	-21.0	-21.0
Michigan	-112.0	-1.3*	-113.3
Minnesota	+240.0	0	+240.0
Mississippi	-0.7	-6.6	-7.3
Missouri	NA	NA	NA
Montana	IRE	IRE	IRE
Nebraska	NA	NA	NA
Nevada	NT	NT	NT
New Hampshire	NT	NA	NA
New Jersey	-1.5	-65.0	-66.5
New Mexico	-4.0	-12.0	-16.0
New York	-45.0	-60.0	-105.0
North Carolina	NA	-60.0	-60.0
North Dakota	NA	NA	NA
Ohio	NA	NA	NA
Oklahoma	NA	0	NA
Oregon	IRE	IRE	IRE
Pennsylvania	-18.0	-142.3	-160.3
Rhode Island	0	NA	0
South Carolina	NA	NA	NA
South Dakota	NT	NT	NT
Tennessee	0	-30.0	-30.0
Texas	NT	NT	NT
Utah	NA	NA	NA
Vermont	NA	NA	NA
Virginia	-34.1	-46.9	-81.0
Washington	NT	NT	NT
West Virginia	0	0	0
Wisconsin	NA	NA	NA
Wyoming	NT	NT	NT
Total Loss	296.3	868.9	1,101.6
Total Gain	347.7	0	284.1
Totals	+51.4	-868.9	-817.5

Key: IRE—Incomplete Revenue Estimates
NT —No Tax
NA—Not Available
*—Michigan Single Business Tax
Notes: Based on estimates from 21 states

Table 4

Projected Impact of ERTA on State Revenue (In Millions of Dollars)
Fiscal 1985

	Individual	Corporate	Net
Alabama	NA	NA	NA
Alaska	NT	-11.9	-11.9
Arizona	+38.0	-14.2	+23.8
Arkansas	0	0	0
California	0	0	0
Colorado	NA	NA	NA
Connecticut	NT	0	0
Delaware	NA	NA	NA
Florida	NT	-168.7	-168.7
Georgia	0	0	0
Hawaii	-10.9	-11.7	-22.6
Idaho	-16.0	-23.0	-39.0
Illinois	-22.0	-271.0	-293.0
Indiana	-25.0	-45.5	-70.5
Iowa	NA	NA	NA
Kansas	NA	NA	NA
Kentucky	NA	NA	NA
Louisiana	+33.6	-24.8	+8.8
Maine	NA	NA	NA
Maryland	-25.6	NA	-25.6
Massachusetts	0	-27.0	-27.0
Michigan	-141.0	-1.65*	-142.6
Minnesota	+300.0	0	+300.0
Mississippi	-0.8	-10.6	-11.4
Missouri	NA	NA	NA
Montana	IRE	IRE	IRE
Nebraska	NA	NA	NA
Nevada	NT	NT	NT
New Hampshire	NT	NA	NA
New Jersey	-1.0	-105.0	-106.0
New Mexico	NA	NA	NA
New York	-60.0	-290.0	-350.0
North Carolina	NA	-82.0	-82.0
North Dakota	NA	NA	NA
Ohio	NA	NA	NA
Oklahoma	NA	NA	NA
Oregon	IRE	IRE	IRE
Pennsylvania	-24.0	-263.5	-287.5
Rhode Island	0	NA	NA
South Carolina	NA	NA	NA
South Dakota	NT	NT	NT
Tennessee	NT	-50.0	-50.0
Texas	NT	NT	NT
Utah	NA	NA	NA
Vermont	NA	NA	NA
Virginia	NA	NA	NA
Washington	NT	NT	NT
West Virginia	0	0	0
Wisconsin	NA	NA	NA
Wyoming	NT	NT	NT
Total Loss	326.3	1,400.55	1,687.8
Total Gain	371.6	0	332.6
Totals	+45.3	-1,400.55	-1,355.25

Key: IRE—Incomplete Revenue Estimates
NT —No Tax
NA—Not Available
*—Michigan Single Business Tax
Note: Based on estimates from 18 states

Table 5

Projected Impact of ERTA on State Revenue (In Millions of Dollars) Fiscal 1986

	Individual	Corporate	Net
Alabama	NA	NA	NA
Alaska	NT	NA	0
Arizona	+47.6	-21.2	+26.4
Arkansas	0	0	0
California	0	0	0
Colorado	NA	NA	NA
Connecticut	NT	0	0
Delaware	NA	NA	NA
Florida	NT	-240.6	-240.6
Georgia	0	0	0
Hawaii	-14.9	-17.7	-32.6
Idaho	-23.0	-43.0	-66.0
Illinois	-22.0	-384.0	-406.0
Indiana	NA	NA	NA
Iowa	NA	NA	NA
Kansas	NA	NA	NA
Kentucky	NA	NA	NA
Louisiana	+36.9	-33.6	+3.3
Maine	NA	NA	NA
Maryland	-36.6	NA	-36.6
Massachusetts	0	-34.0	-34.0
Michigan	-188.0	-2.0*	-190.0
Minnesota	+330.0	0	+330.0
Mississippi	-0.9	-12.0	-12.9
Missouri	NA	NA	NA
Montana	IRE	IRE	IRE
Nebraska	NA	NA	NA
Nevada	NT	NT	NT
New Hampshire	NT	NA	NA
New Jersey	-1.0	-135.0	-136.0
New Mexico	NA	NA	NA
New York	-145.0	-390.0	-535.0
North Carolina	NA	NA	NA
North Dakota	NA	NA	NA
Ohio	NA	NA	NA
Oklahoma	NA	NA	NA
Oregon	IRE	IRE	IRE
Pennsylvania	-29.0	-331.7	-360.7
Rhode Island	0	NA	NA
South Carolina	NA	NA	NA
South Dakota	NT	NT	NT
Tennessee	NT	-80.0	-80.0
Texas	NT	NT	NT
Utah	NA	NA	NA
Vermont	NA	NA	NA
Virginia	NA	NA	NA
Washington	NT	NT	NT
West Virginia	0	0	0
Wisconsin	NA	NA	NA
Wyoming	NT	NT	NT
Total Loss	460.4	1,724.8	2,130.4
Total Gain	414.5	0	359.7
Totals	-45.9	-1,724.8	-1,770.7

Key: IRE—Incomplete Revenue Estimates
NT —No Tax
NA—Not Available
*—Michigan Single Business Tax

Note: Based on estimates from 15 states.

Table 6

Projected Net Revenue Loss/Gain (In Millions of Dollars) Fiscal Years 1982-86 (unless otherwise specified)

	Individual	Corporate	Net
Alabama	+43.7[1]	-11.1[1]	+32.6[1]
Alaska	NT	-27.4[3]	-27.4[3]
Arizona	+90.7	-49.8	+40.9
Arkansas	0	0	0
California	0	0	0
Colorado	IRE	IRE	IRE
Connecticut	0	0	0
Delaware	NA	NA	NA
Florida	NT	-617.9	-617.9
Georgia	0	0	0
Hawaii	-42.15	-43.95	-86.1
Idaho	-62.5	-87.0	-149.5
Illinois	-38.0	-966.0	-1,054.0
Indiana	-55.0[3]	-90.5[3]	-145.5[3]
Iowa	+34.5[1]	-16.5[1]	+18.0[1]
Kansas	+57.0[2]	-63.0[2]	-8.0[2]
Kentucky	+52.8[2]	0[2]	+52.8[2]
Louisiana	+107.3	-90.9	+16.4
Maine	-6.3[1]	-4.2[1]	-10.5[1]
Maryland	-84.6	IRE	IRE
Massachusetts	-102.0	0	-102.0
Michigan	-532.0	-6.45*	-538.4
Minnesota	+1,029.0	0	+1,029.0
Mississippi	-3.1	-35.5	-38.6
Missouri	+23.0[1]	-42.3[1]	-19.3[1]
Montana	IRE	IRE	IRE
Nebraska	IRE	IRE	IRE
Nevada	NT	NT	NT
New Hampshire	IRE	IRE	IRE
New Jersey	-9.5	-362.0	-371.5
New Mexico	-10.0[2]	-21.5[2]	-31.5[2]
New York	-325.0	-790.0	-1,115.0
North Carolina	IRE	-178.0[3]	IRE
North Dakota	+5.7[2]	-0.8[2]	-6.5[2]
Ohio	-37.5[2]	-50.5[2]	-88.0[2]
Oklahoma	IRE	IRE	IRE
Oregon	IRE	IRE	IRE
Pennsylvania	-86.0	-787.3	-873.3
Rhode Island	IRE	IRE	IRE
South Carolina	0	0	0
South Dakota	NT	NT	NT
Tennessee	NT	-164.0	-164.0
Texas	NT	NT	NT
Utah	IRE	IRE	IRE
Vermont	IRE	IRE	IRE
Virginia	-68.0[2]	-84.3[2]	-152.3[2]
Washington	NT	NT	NT
West Virginia	0	0	0
Wisconsin	IRE	IRE	IRE
Wyoming	NT	NT	NT

Key: IRE—Incomplete Revenue Estimates
NT —No Tax
*—Michigan Single Business Tax
[1] —1982-83
[2] —1982-84
[3] —1982-85

Table 7

Relationship of State Laws to ERTA: Individual Income Tax
Fiscal 1982

	Statutorily Coupled to Federal Tax Code	Voluntarily Coupled to Federal Tax Code	Not Coupled and/or Certain Modifications Made	No Individual Income Tax	Specifics
Alabama		•			Coupled on certain income items & itemized deductions
Alaska				•	
Arizona	•				Exception: Disallowed two-earner married couple deduction
Arkansas		•			Conformity on certain itemized deductions
California			•		
Colorado	•				
Connecticut				•	
Delaware	•				
Florida				•	
Georgia			•		
Hawaii	•				
Idaho	•				
Illinois	•				
Indiana		•			
Iowa		•			
Kansas	•				
Kentucky	•				ACRS provisions were adopted for individual income tax
Louisiana	•				
Maine	•				
Maryland	•				Exception: Disallowed two-earner married couple deduction
Massachusetts		•			
Michigan	•				Legislation pending to disallow two-earner married couple deduction
Minnesota		•			
Mississippi		•			
Missouri	•				
Montana	•				
Nebraska	•				
Nevada				•	
New Hampshire				•	
New Jersey	•				
New Mexico	•				
New York			•		Conformity to certain provisions remains
North Carolina	•				
North Dakota	•				
Ohio	•				
Oklahoma	•				Federal tax paid is a deduction against Oklahoma taxable income
Oregon			•		Exception: IRAs and KEOGHs
Pennsylvania			•		Partnerships provision conforms to federal law
Rhode Island	•				
South Carolina			•		
South Dakota				•	
Tennessee				•	
Texas				•	
Utah	•				
Vermont	•				
Virginia		•			Only in definition of FAGI
Washington				•	
West Virginia			•		Legislation adopted in 1982 to decouple (effective FY 1983)
Wisconsin	•				Modifications made
Wyoming				•	
Totals	25	8	7	10	

Table 8

Relationship of State Laws to ERTA: Corporate Income Tax
Fiscal 1982

	Coupled	Decoupling Action Possible	Not coupled and/or Modifications	No Corporate Income Tax	Specifics
Alabama	•				Voluntary conformity
Alaska			•		Decoupled petroleum corporate tax only
Arizona	•				
Arkansas			•		Voluntary conformity to certain itemized deductions
California			•		California traditionally has not conformed to federal code
Colorado	•				Coupled by statute
Connecticut			•		
Delaware	•				Coupled by statute
Florida	•	•			
Georgia			•		Legislature chose not to conform to federal tax code
Hawaii	•				
Idaho	•				
Illinois	•	•			
Indiana	•				
Iowa			•		Several modifications were made
Kansas	•				
Kentucky			•		
Louisiana	•				ACRS adopted administratively
Maine	•	•			Minor modifications made
Maryland	•	•			
Massachusetts	•				
Michigan					Single business tax
Minnesota			•		
Mississippi	•				
Missouri	•	•			
Montana	•				
Nebraska	•				
Nevada				•	
New Hampshire	•	•			
New Jersey	•	•			Decoupling legislation has passed one House
New Mexico	•				
New York			•		Still conforms to some federal provisions
North Carolina	•				
North Dakota			•		
Ohio			•		
Oklahoma			•		Oklahoma will use pre-ERTA depreciation rules
Oregon			•		Decoupled for tax years 1981 and 1982 only
Pennsylvania			•		
Rhode Island	•	•			
South Carolina			•		
South Dakota				•	
Tennessee	•	•			Minor modifications made
Texas				•	
Utah	•				
Vermont	•				
Virginia			•		
Washington				•	
West Virginia			•		Decoupling legislation passed in 1982 (effective FY 1983)
Wisconsin	•				
Wyoming				•	
Totals	27	9	17	5	

Table 9

New Taxes Imposed Specifically to Compensate for ERTA

	Yes	No	Specifics
Alabama		*	
Alaska		*	
Arizona		*	
Arkansas		*	
California		*	
Colorado		*	
Connecticut		*	
Delaware		*	
Florida	*		Emergency excise tax on corporations
Georgia		*	
Hawaii		*	
Idaho		*	
Illinois		*	
Indiana	*		Increased supplemental net corporation income tax by 1%
Iowa	*		Corporate and individual minimum tax at 25% of federal minimum and alternate taxes
Kansas		*	
Kentucky		*	
Louisiana		*	
Maine		*	
Maryland		*	
Massachusetts		*	
Michigan		*	
Minnesota		*	
Mississippi		*	
Missouri		*	
Montana		*	
Nebraska		*	
Nevada		*	
New Hampshire		*	
New Jersey		*	
New Mexico		*	
New York		*	
North Carolina		*	
North Dakota		*	
Ohio		*	
Oklahoma		*	
Oregon		*	
Pennsylvania		*	
Rhode Island		*	
South Carolina		*	
South Dakota		*	
Tennessee		*	
Texas		*	
Utah		*	
Vermont		*	
Virginia		*	
Washington		*	
West Virginia		*	
Wisconsin		*	
Wyoming		*	

Note: General tax increases were enacted in several states to cover loss of federal funds which could not be directly traced to ERTA.

Table 10

ERTA Provisions Cited as Responsible
for Most Significant Revenue Loss to the States

	ACRS	Marriage Penalty	IRA/KEOGH	All-Savers	General Rate Reductions
Alabama					
Alaska	*				
Arizona	*		*		
Arkansas					
California					
Colorado	*				
Connecticut	*				
Delaware	*				
Florida	*				
Georgia					
Hawaii	*				
Idaho	*	*	*		
Illinois	*				
Indiana	*				
Iowa	*		*		
Kansas	*				
Kentucky	*				
Louisiana	*				
Maine	*	*	*		
Maryland	*				
Massachusetts	*				
Michigan	*	*			
Minnesota		*		*	
Mississippi	*				
Missouri	*				
Montana	*				
Nebraska					
Nevada					
New Hampshire					
New Jersey	*				
New Mexico	*				
New York	*		*	*	
North Carolina	*				
North Dakota					*
Ohio	*	*		*	
Oklahoma					
Oregon	*	*			
Pennsylvania	*				
Rhode Island					*
South Carolina					
South Dakota					
Tennessee	*				
Texas					
Utah	*	*	*	*	
Vermont	*				
Virginia	*		*	*	
Washington					
West Virginia					
Wisconsin	*		*		
Wyoming					
Totals	33	7	8	5	2

Notes

Florida: The figures in Tables 1-6 are from the Florida Department of Revenue. Different projected revenue estimates were received from the Florida Budget Office. These figures are as follows:

	Corporate Income Tax	Individual Income Tax
1982	-$8 million	No individual
1983	-$13.1 million	income tax
1984	-$9 million	
1985	-$10 million	
1986	Not available	

Idaho: The figures in Tables 1-6 are from the Idaho Budget Office. Different estimates were received from the Idaho Tax Commission, and these are as follows:

	Corporate Income Tax	Individual Income Tax
1982	-$2.1 million	-$0.8 million
1983	-$5.6 million	-$4.2 million
1984	-$10.1 million	-$11.9 million
1985	-$14.5 million	-$18.9 million
1986	-$20.4 million	-$26.6 million

Illinois: The figures in Tables 1-6 are from the Illinois Department of Revenue. Different estimates were received from the Illinois Budget Office and these are as follows:

	Corporate Income Tax	Individual Income Tax
1982	-$10 million	—0—
1983	-$40 million	-$20 million

Further estimates for fiscal years 1984 to 1986 were not available.

Maine: The figures in Tables 1 and 2 were from the Maine Department of Finance. The estimates received from the State Budget Office varied slightly.

Maryland: The figures in Tables 1-6 are from the Income Tax Division of the Maryland Department of Revenue. The revenue estimates from the Department of Budget and Fiscal Planning are as follows:

	Corporate Income Tax	Individual Income Tax
1982	-$8.4 million	+$3.0 million
1983	-$18.3 million	NA
1984	-$34.2 million	NA
1985	-$51.8 million	NA
1986	-$77.5 million	NA

Michigan: Michigan does not have a corporate income tax, but does have a single business tax (SBT). The tax base for the SBT is total compensation, federal taxable income, net interest and depreciation. The figures in Tables 1-6 represent totals from the single business tax.

Mississippi: The figures in Tables 1-6 are from the Mississippi Revenue Bureau. The revenue estimates projected by the State Budget Office are as follows:

	Corporate Income Tax	Individual Income Tax
1982	-$7.4 million	-$1.3 million
1983	-$13.3 million	-$2.3 million

Oregon: The figures in Tables 1-6 are from the Oregon Department of Revenue. The projected estimates are from the Budget Office:

	Corporate Income Tax	Individual Income Tax
1982	NA	+$2.0 million
1983	+$10.0 million	+$5.0 million
1984	+$23.0 million	-$6.0 million
1985	+$25.0 million	-$6.0 million
1986	+$27.0 million	-$7.0 million

State Summaries

ALABAMA projects a net revenue gain through fiscal 1983 as a result of ERTA. Conformity to provisions of the federal tax code is handled in the following manner:

- Individual Income Tax—in the treatment of certain income items and certain itemized deductions, Alabama statutes do refer to specific provisions of the federal tax code.
- Corporate Income Tax—in instances where the Alabama law does not conflict with federal law, the federal treatment of income and deductions is generally accepted.

ALASKA will lose revenue from corporate income tax as a result of ERTA. However, for fiscal 1982 that loss is relatively small in terms of the entire state general fund budget.

Two months prior to the passage of ERTA, the Alaska legislation adopted a bill which disconnected its petroleum corporate tax from the federal depreciation schedule. Non-petroleum corporate tax still conforms to the federal tax code by statute.

The primary loss of revenue to the state stems from the ACRS provision of ERTA.

ARIZONA will lose net revenue through 1984 as a result of recent action to conform to the provisions of the federal tax code. Since Arizonians can subtract federal taxes paid from their adjusted gross income, the tax reductions contained in ERTA would have boosted state income tax revenues. During the last legislative session, however, the legislature voted to accept all the changes which ERTA made to federal taxable income (corporations) and the federal adjusted gross income (individuals). The only major exception was the two-earner married couple deduction, which would have compensated for a marriage penalty which Arizona does not have. In addition, Arizona will also lose an indeterminable amount of estate tax revenues.

ARKANSAS will experience little impact from the passage of ERTA. Although it does not require automatic conformity to the federal tax code, Arkansas voluntarily conforms to individual income tax provisions on certain itemized deductions.

CALIFORNIA's losses as a result of ERTA cannot be determined at this point, but none is anticipated because California is not automatically tied to the federal system. However, California nevertheless voluntarily conforms to federal provisions on most major exclusion and deduction items.

A bill currently pending in the California Legislature would conform California law selectively to several provisions of ERTA if enacted.

Following are the principal differences between state and federal laws:

- *Federal Provisions Not in State Law—*
  1. Net business operating loss deduction.
  2. Subchapter S.
  3. Partnership taxed as corporation.
  4. Domestic International Sales Corporation.
  5. Asset Depreciation Range.
  6. Investment Credit.
  7. Dividend exclusions.
  8. Foreign tax credit.
  9. On-the-job training facility amortization.
  10. Work incentive credit.
  11. Regulated investment company dividends as capital gain.
  12. Foreign income exclusion.
  13. Personal exemption for taxpayers 65 or older.
  14. State income tax deduction.
  15. Reduction of standard deduction amount for taxpayers claimed as dependent by another.
  16. Exclusion of U.S. subsidy for exploration of critical and strategic minerals and metals.
  17. Exemption of interest from state obligations.
  18. Credit for political contributions.
  19. Credit for purchasing of new housing.
  20. Low income standard deduction.
- *State Provisions Not in Federal Law*
  1. Regulated investment company dividends as ordinary income.
  2. Renter credit.
  3. Adoption expense deduction.
  4. Denial of deduction for expenses related to illegal activity.
  5. Military retirement pay exclusions.
  6. Military reserve pay exclusions.
  7. Exemption of interest from federal obligations (constitutional).
- *Provisions With Variations Between Federal and State Laws—*
  1. Standard deduction amounts.
  2. Basis of inherited property in computing gain from sale thereof.
  3. Capital gains and losses.
  4. Ceiling on deduction for charitable contributions.
  5. Foreign student at home as charitable contribution.
  6. Child care deduction.
  7. Political contributions.
  8. Retirement income credit.
  9. Personal and dependency exemptions.
  10. Amounts deductible for contributions to self-employed retirement plan.
  11. Minimum tax on preference income.
  12. Percentage depletion on certain natural resources.
  13. Income averaging.
  14. Annuity income.
  15. Personal exemption for blind persons.
  16. Head of household—exemption for first dependent.
  17. Exemption for trusts and estates.
  18. Individual retirement account deduction.

COLORADO will experience a net gain through 1983 as a result of ERTA. Since 1965, Colorado statutes have mandated that state depreciation laws be tied to the federal tax code. This conformity applies to both individual and corporate income tax provisions. The major tax loss to Colorado will be due primarily to ACRS.

ERTA will have little effect on **CONNECTICUT** primarily because there is no state income tax. ACRS would have adversely affected state revenues, but the legislature recently adopted a bill limiting deductions for depreciation under the state corporation business tax.

A copy of the Connecticut statute is on file with The Council of State Governments.

DELAWARE will lose revenue due to passage of ERTA. However, it should be noted that the estimates contained in Tables 1 and 2 were furnished by the Delaware Economic and Financial Advisory Council and distributed to the Council of State Governments through the Department of Revenue.

Delaware is coupled to the federal tax code by statute. Federal Adjusted Gross Income is used as a starting point for both the corporate and individual income tax (with slight modifications).

The most significant loss of revenue to the state will come as a result of ACRS.

Although **FLORIDA** does not have an individual income tax, the state will lose substantial revenue under its corporate income tax provisions due to ERTA. Florida depreciation laws are coupled by statute to the federal system, and the state's major revenue losses will result from ACRS.

In order to minimize this loss, Florida has recently imposed an emergency excise tax on corporations (2 percent of ACRS) which will expire in 1985.

Note: Florida estimates a loss of revenue of $86 million due to ties with the federal tax code on estate tax provisions.

GEORGIA will lose little, if any, revenue as a result of ERTA. Traditionally, Georgia law has conformed to the federal tax code. However, the legislature opted not to conform to federal provisions during 1982, in order to avoid a loss of revenue.

HAWAII will lose over $86 million for fiscal years 1982-86 as a result of ERTA. Hawaii statutes are generally in conformity with the federal tax code. The intent of a recent Hawaii Income Tax Statute was to conform to the method of arriving at taxable income for state purposes with the zero-bracket and tax table income provisions previously allowed under the Internal Revenue Code.

IDAHO will lose revenue as a result of ERTA. A determination as to whether the state will conform to the federal tax code is made on a yearly basis by the legislature. In 1982, a decision was made to conform to the code, thus compounding the effect of ERTA on the state. The most significant loss of revenue is from ACRS, the reduction in the marriage penalty, and IRA sections of the federal act.

ILLINOIS will experience one of the largest losses of revenue among the states, due to ERTA. In 1982 alone, revenue loss resulting from ERTA will be 1 percent of the total Illinois general fund budget (exclusive of capital expenditure). Projections indicate the situation will grow increasingly worse through 1986. In Illinois, conformity with the federal tax code is mandated by statute and applies to both the individual income tax and corporate income tax provisions. The four sections of ERTA which will affect the Illinois tax base are:

1. The accelerated depreciation schedule.
2. The leasing of depreciable assets.
3. The "marriage penalty" provision.
4. Changes in IRA and KEOGH retirement accounts.

It should be noted that many of the tax changes contained in ERTA will not affect the Illinois tax base because they apply after computing federal taxable income (for corporations), or after computing adjusted gross income (for individuals). Illinois adopts these two figures as the starting points for computing state income tax liability.

INDIANA will lose virtually no revenue during fiscal 1982 as a result of ERTA. However, projected estimates indicate that the state will lose revenue totaling over $145 million through 1985, due primarily to ACRS.

During the past legislative session, the General Assembly increased the supplemental Net Corporate Income Tax by 1 percent, in order to offset estimated losses.

Indiana's corporate income tax and individual income tax are coupled to certain sections of the federal tax code.

IOWA has recently modified its state tax laws in response to ERTA. Although the state will lose net revenue during fiscal 1982, much of that revenue will be recouped in fiscal 1983. Iowa does not automatically conform to the federal tax code, but both corporate and individual income taxes basically rely upon the federal definition of income with a few exceptions. The major departures from the federal tax base related to ERTA are:

1. Disallowance of deductions resulting from provisions concerning "safe harbor" sale-leaseback arrangements.
2. Inclusion in Iowa individual taxable income of interest from "All-Savers" certificates.
3. Exclusion of any deductions from income designed to limit the federal "marriage tax." Because of a uniform rate structure over every filing status, no marriage tax exists within Iowa law.

A significant modification in Iowa tax law is the increase in the top corporate income tax rate to 12 percent from 10 percent on income over $250,000.

The largest impact of ERTA on Iowa taxes in fiscal years 1982-83 is from decreased federal tax deductions permitted when figuring Iowa tax. Federal income taxes may be deducted completely from calculating individual taxable income, and at a rate of 50 percent with determining corporate taxable income. Federal estate tax is also deductible in figuring the taxable estate for Iowa estate and inheritance tax purposes.

Finally, it should be noted that Iowa has imposed a corporate and individual minimum tax at the rate of 25 percent of federal minimum and alternative taxes.

KANSAS will experience a small net revenue loss during fiscal 1983, directly due to ERTA.

Kansas statutes require automatic conformity to the federal tax code. Computation of Kansas individual income tax begins with federal adjusted gross income. Changes in federal law which modify federal adjusted gross income will automatically be accepted by Kansas. Kansas also allows federal tax liability to be deducted from Kansas adjusted gross income on returns for individuals so any changes in federal tax liability will also affect Kansas revenues for individual income tax. Since computation of Kansas tax for corporations begins with federal taxable income, any changes that modify federal taxable income automatically affect Kansas corporate revenue.

Note: the capital cost recovery provision of ERTA will reduce corporate and individual income taxes by $21.5 million in fiscal 1983 and $42.5 million in fiscal 1984.

KENTUCKY will gain net revenue as a result of recent legislative action which uncoupled state corporate tax laws

from the ACRS provision of the federal code.

In Kentucky, the IRS code reference date is updated every two years. The ACRS provisions were adopted for the individual income tax. However, the allowable ACRS deduction for corporate income tax is computed by dividing ACRS depreciation by 1.4 percent through fiscal 1984. This will be discontinued after fiscal 1984, and corporations who used the factor will get phased-in credit for the difference between the ACRS deduction and ACRS deduction divided by 1.4 over a six-year period. The estimated *loss* had ACRS been adopted for corporations is as follows:

Fiscal 1982	$16.8 million
Fiscal 1983	$26.4 million
Fiscal 1984	$44.0 million

LOUISIANA will gain net revenue through 1986 as a result of ERTA. Although revenue from corporate income taxes will decline, this will be offset through gains from the individual income tax.

Louisiana has coupled its individual income tax depreciation laws to the federal tax code by statute. Conformity to ACRS provisions was adopted administratively.

MAINE will lose over $10 million in revenue through fiscal 1983 as a result of voluntary adoption of ERTA provisions. The primary revenue loss stems from ACRS, IRA extension, and the marriage penalty relief sections of the new federal tax act.

State acceptance of ACRS for corporations is predicated on the availability of sufficient un-appropriated revenues to fund conformity as determined by the State Budget Officer on December 1, 1982. If revenues are not sufficient, a depreciation option will exist for corporations. They may:

1. Use depreciation deductions as provided by the IRC in effect on December 31, 1980; or
2. Use the ACRS deduction with an add-back of 18 percent on total depreciation deductions for 1982 with a recapture of the add-back in three equal annual amounts beginning in 1983.

Until calendar year 1981, the Maine legislature enacted legislation which brought the tax laws into conformity with federal statutes. During calendar year 1981 the state laws conformed with the federal laws including ERTA except for the increased interest deduction which remained at the calendar year 1980 amount of $100 and $200. For calendar year 1982 other provisions were disallowed; specifically, Maine law disallows the deductions available to nominal lessors in safe harbor lease arrangements as provided in ERTA.

Note: Maine uses the federal definitions of Adjusted Gross Income and Taxable Income for individual and corporate income taxes respectively.

MARYLAND will lose net revenue through 1986 as a result of ERTA under their individual income tax provisions. The degree of revenue loss to the state under the corporate income tax has not yet been determined pending an analysis and additional data on the impact of ACRS. In order to offset further revenue losses, the Maryland legislature adopted a provision to disallow the two-earner married couple deduction.

Maryland conforms to the federal tax code by statute. With regard to the corporate income tax, federal taxable income is used as a starting point.

MASSACHUSETTS estimates substantial revenue losses under their corporate income provisions as a result of ERTA. Approximately 60 percent is revenue loss to the general fund; 40 percent represents a loss of revenue to the Local Aid Fund.

Massachusetts requires automatic conformity to the federal tax code by statute for their corporate income tax. Although this is not the case for the individual income tax, the state nevertheless conforms to the federal code in most instances, and in fact, Massachusetts' individual income tax law has several references to the U.S. Internal Revenue Code. These pertain to the Code as amended on November 6, 1978. Any updating requires legislative action.

It should be noted that Massachusetts' gross income is federal gross income with modifications.

MICHIGAN will lose significant revenue under its individual income tax provisions as a result of ERTA. Projections estimate $532 million in lost revenue to the state, which will likely result in reductions in the areas of social services, education, and health programs. At this point, legislation has not been passed to reverse the effects of ERTA; however, there is a bill in the legislature which has the support of the governor, that would remove the deduction for two-earner married couples.

The two sections of ERTA which are the most costly to Michigan are the marriage penalty and ACRS.

Michigan is coupled to the federal tax code by statute. Its individual income tax is based on adjusted gross income as defined by the federal government, therefore, any change in the federal AGI is automatically picked up by Michigan unless there is legislative action to change it.

It should be noted that although Michigan does not have a corporate income tax, it does have a single business tax (SBT). The tax base for the SBT is total compensation, federal taxable income, net interest, and depreciation. The SBT conforms with the provisions of ERTA, but ACRS will not have a significant impact on the SBT, because while the accelerated depreciation will reduce federal taxable income, it will raise depreciation by an equal amount. Some small businesses will benefit from increased depreciation because they are eligible for SBT credits based on profit.

MINNESOTA has recently uncoupled its corporate income tax from the federal tax code, and therefore will gain revenue through 1986 based upon gains from the individual income tax.

Perhaps the most significant development in Minnesota has been the recent limitation of the ACRS deduction. These limitations are as follows:

Tax year 1982—83 percent of ACRS allowed
60 percent for 15 year real property
Tax year 1983 and beyond—80 percent of ACRS allowed

Minnesota does follow the federal definition of income to some extent (with regard to individual income tax provisions), but this has been modified by state law.

MISSISSIPPI projects a net revenue loss through 1986 as a result of ERTA. Mississippi is tied to the federal tax code by administrative action rather than statute. This required conformity applies to both the individual income tax and the

corporate income tax.

The largest loss of revenue to the state stems from ACRS.

MISSOURI will lose net revenue, primarily as a result of ACRS. State statutes require conformity to the provisions of the federal tax code. With regard to the individual income tax, federal adjusted gross income with certain modifications is used as Missouri's Adjusted Gross Income. With regard to the corporate income tax, federal taxable income with specific modifications is Missouri taxable income subject to apportionment.

MONTANA will likely lose net revenue as a result of ERTA, although revenue figures are incomplete at the present time. Montana requires automatic conformity to the federal tax code by statute. The primary loss of revenue will result from ACRS.

NEBRASKA will lose revenue as a result of ERTA's effect on state government operations. As a partial means of compensation for ERTA, Nebraska has increased the tax on cigarettes by four cents (expires 5-1-84), increased the state sales tax by ½ percent, raised the corporate income tax rate, and increased various fees charged by state agencies.

Nebraska automatically conforms to federal depreciation rules by statute. The state's individual income tax rate is set as a percentage of federal income tax liability before credits. The corporate income or franchise tax is a percentage of federal taxable income for the corporation operating wholly in Nebraska.

NEVADA assesses neither a corporate nor an individual income tax; therefore, no gain or loss of revenue is projected.

NEW HAMPSHIRE does not have an individual income tax, and the impact of ERTA on the corporate income tax has not yet been determined. State statutes do not require automatic conformity to the federal tax code; however, New Hampshire does conform to certain provisions nevertheless.

NEW JERSEY projects a revenue loss of over $370 million through fiscal 1986, primarily as a result of ACRS.

New Jersey is coupled to federal tax provisions by statute; however, legislation has been introduced with the support of the governor, to uncouple the state from ACRS provisions of ERTA. Should this legislation be adopted, projected revenue losses would likely be revised downward.

With regard to the New Jersey corporate income tax, federal taxable income is used as a starting point. With regard to the individual income tax, state business income is income for federal purposes.

NEW MEXICO will lose revenue due to ERTA but not enough to dramatically affect the level of programs or services offered by the state. This is due primarily to a relatively bright economic picture in New Mexico.

The state requires automatic conformity to the federal tax code by statute. On both the individual and corporate income tax, federal taxable income is used as a starting point.

The ACRS section of the federal act will result in the greatest degree of revenue loss to the state.

NEW YORK will lose revenue through 1986 due primarily to the capital cost recovery, All Savers, and the IRA/KEOGH provisions of ERTA.

New York has made several significant modifications to existing state tax laws for tax years beginning in 1982 and 1983, in order to offset revenue losses. In these years, New York will not allow the federal accelerated cost recovery deductions under Section 168 of the Internal Revenue Code for purposes of the corporation franchise tax (primarily calculated based on income), the franchise taxes on banking and insurance corporations, and the State and City of New York personal income taxes. Depreciation for such years is to be computed under the methods in effect prior to the federal adoption of ACRS.

In addition, for tax years 1982 and 1983, New York State tax calculations must ignore all effects of "safe harbor" lease transactions.

Note: Under current plans, New York will revert to its previous tax structure beginning in fiscal 1985.

NORTH CAROLINA expects moderate losses as a result of the ERTA. In fiscal 1982 for example, North Carolina will lose approximately $6 million from a total general fund budget of $3.1 billion. However, by fiscal 1986, the total loss from the corporate income tax will reach $82 million. The projected impact of ERTA on North Carolina's individual income taxes is not available.

Although North Carolina's state law is revised annually to conform to the federal tax code, conformity is not automatic. For fiscal 1982, the state is in compliance with federal tax provisions.

Note: Subsequent to drafting this summary, the North Carolina Budget Office notified The Council of State Governments that their official position is that the revenue effect of more investments and jobs resulting from ERTA will approximately offset the direct revenue loss (as indicated above). This should result in a projected net gain (by fiscal 1983-84) when considering all taxes.

Also, a bill which would have uncoupled North Carolina's depreciation laws from federal rules was given favorable action in the House during the June 1982 session of the North Carolina General Assembly. However, the brevity of the session did not permit the bill to be discussed by the Senate.

NORTH DAKOTA will lose a small amount of revenue under the provisions of ERTA.

Under the North Dakota system, automatic conformity to the federal tax code is mandated for some individual income tax provisions, but is voluntary for corporation income tax provisions. Under present tax structure, North Dakota conforms to the federal tax code in all aspects.

OHIO will lose revenue due primarily to ACRS, marriage penalty, and All-Savers sections of ERTA.

In order to counterbalance the loss to the General Revenue Fund, Ohio did not adopt in full the new federal depreciation rate schedule as provided under ERTA. For fiscal 1982 and 1983, Ohio corporations may elect to use either the "old" depreciation rate schedule which was effective prior to 1981, or 90 percent of the "new" depreciation rate under ERTA. This option applies only to property acquired in 1981 and thereafter. Should the corporation utilize the old depreciation schedule, the difference in depreciation expense between the old rate and the new rate may be deducted from their tax liability over a 5-year period beginning in tax year 1982.

Ohio automatically conforms to the federal tax code with regard to individual income tax. Under this system, federal adjusted gross income is used as a starting point from which one calculates Ohio taxable income. Previously (before fiscal 1982), state corporate income tax provisions were also required to conform to the federal tax code. However, conformity is no longer required in order to avoid a substantial loss of revenue from ACRS.

OKLAHOMA has made several modifications in the state tax system in response to ERTA and, as a result, may lose revenue. In 1982, Oklahoma passed legislation which allowed the state to use pre-ERTA depreciation rates for corporations. With regard to Oklahoma's individual income tax, there is conformity to the federal code in that federal income tax paid is a deduction against Oklahoma taxable income. With regard to the state corporate income tax, the starting point for Oklahoma taxable income is federal taxable corporate income. The federal depreciation schedule was discontinued in 1982. Had legislation not been adopted by the Oklahoma legislature, the following revenue estimates would apply:

	Corporate Income Tax	Individual Income Tax
1982	- $ 5.9 million	+ $ 7.7 million
1983	- $14.2 million	+ $32.8 million
1984	- $24.8 million	+ $50.6 million

Note: Oklahoma taxpayers will be slightly wealthier because of legislative modifications made in 1982. The state could have benefited greatly under ERTA, but instead raised certain exemption provisions from $750 to $1,000. Thus, any windfall which may have been received was passed along to taxpayers.

Historically, **OREGON** has automatically adopted federal income tax provisions. However, when it became apparent that the state would experience huge revenue losses as a result of ties to the federal code, Oregon disconnected from ERTA in order to offset projected losses. The exceptions are changes in pension plans (IRAs and KEOGHs) which will be adopted. Oregon corporate depreciation allowances will also be tied to federal law enacted prior to January 7, 1981. This separation from federal law will be effective for tax years 1981 and 1982 only. Therefore, estimates beyond 1982 are not available.

PENNSYLVANIA will experience a relatively small loss of revenue for fiscal 1982 as a result of Pennsylvania Public Act 141 which phases in the effects of ACRS over a four-year period. However, subsequent revenue losses in fiscal years 1983 through 1986 may be significantly larger.

In 1981 and 1982, only pre-ACRS depreciation may be claimed for Corporate Net Income Tax (CNI) purposes. In 1983, pre-ACRS depreciation must again be used, but 50 percent of the additional deduction permitted by ACRS may also be claimed. In 1984, the full ACRS deduction will be allowed. The amounts disallowed by the phase-in can be recovered beginning in 1984 in installments of 25 percent of the total or $10,000, whichever is greater.

The act covers only the CNI tax, so that unincorporated businesses are free to claim ACRS. Also, the act does not phase in a Pennsylvania investment expenses provision (bonus depreciation). Pennsylvania estimates that the phase in prevented a loss of $85.5 million in CNI revenue during fiscal years 1981-82.

Pennsylvania's depreciation laws are coupled to the federal tax code by statute. With regard to state corporate income provisions, the federal definition of taxable net income is accepted with some modification.

RHODE ISLAND will lose revenue under ERTA in fiscal 1983 and 1984. Estimates for fiscal years 1984-86 are currently being recalculated.

Recently, Rhode Island adjusted their piggyback rate from 19 percent for tax year 1980 to 19.24 percent for tax year 1981. For 1982, the percentage rate is 21.9 percent.

Rhode Island requires automatic conformity to the federal tax code by statute. In regard to individual tax provisions, the law establishes a rate to be taken as a percentage of a taxpayer's federal income tax liability in determining the Rhode Island tax. It also defines the term federal income tax liability as "the amount of federal income tax . . . for which the taxpayer would have been liable if such taxpayer had paid federal income tax based on federal taxable income . . ." The law goes on to define all terms in the Rhode Island personal income tax as having the "same meaning as when used in a comparable context in the laws of the United States relating to federal income taxes . . . any references to the laws of the United States shall mean the provisions of the Internal Revenue Code of 1954 (and amendments thereto) and other provisions of the laws of the United States relating to federal income taxes for the same taxable year . . ."

With regard to corporate income tax, the law defines corporate net income as "gross income as defined in the federal corporation income tax law applicable to the taxable year . . . minus all items deductible under the federal corporation income tax law applicable to the taxable year . . ."

Note: A Commission has been established to study the effect of changes in federal tax laws on Rhode Island's tax structure and economy. One important responsibility assigned to the Commission was to analyze the Rhode Island personal income tax, particularly in light of the ERTA mandate to index the federal income tax in 1985.

SOUTH CAROLINA will neither gain nor lose revenue as a result of ERTA. This is due primarily to the recent uncoupling of state tax laws from the federal tax code.

SOUTH DAKOTA has neither an individual income tax nor a corporate income tax. The Bank Franchise Tax is the only income tax levied by the state. Therefore, any loss of income due to the provisions of ERTA will be negligible.

TENNESSEE does not have an individual income tax. However, Tennessee will lose revenue resulting from the impact of the ACRS provisions of ERTA on the state corporate income tax.

The state has recently modified its tax laws by statute to provide that depreciation and any expenses resulting from liberalization of the leasing provisions of federal law will not be allowed in establishing net income for the Tennessee Income Tax. In addition, the state mandates a one-year requirement of a 10 percent depreciation add-back to net income if new federal depreciation guidelines are used.

Since **TEXAS** has neither a corporate nor an individual

income tax, ERTA will have no direct effect on revenue projections for the state. However, there may be an indirect effect on Texas sales, franchise, and estate tax revenues, but it is not possible to ascertain at this time whether the impact will be positive or negative.

Although it appears that **UTAH** will experience a minimal net loss of revenue in fiscal 1982, projected estimates beyond that point are not available.

Utah's individual income tax is coupled to the federal tax code by statute. The ACRS provision of ERTA will be allowed.

Utah officials expect that the ACRS, All-Savers, and IRA sections of ERTA along with the changes in the marriage penalty provision will result in the greatest revenue loss to the state.

VERMONT will lose revenue primarily from the ACRS section of ERTA. This loss represents nearly 1.5 percent of the total general fund budget exclusive of capital expenditures in Vermont for fiscal 1982 alone. Recently, the personal income tax rate was increased from 23 percent to 24 percent of federal tax liability.

Vermont requires automatic conformity to the federal tax code by statute. This applies to both individual and corporate income tax provisions.

VIRGINIA will lose revenue under ERTA, primarily due to the ACRS, IRA, and All-Savers provisions of the act.

However, Virginia recently adopted a bill which defers for Virginia income tax purposes an estimated amount of additional deduction allowed as depreciation under the federal ACRS by requiring an addition to federal taxable income in the two tax years first beginning on or after January 1, 1982, and by providing a subtraction in each of the next five tax years to recover the amount of additions.

The addition in each of the first two tax years is 30 percent of the ACRS deduction and the subtraction in each of the next five tax years is 20 percent of total ACRS additions plus any portion of allowable subtractions for preceding years not utilized to offset taxable income. Additionally, any portion of additions not subtracted by the end of the fifth year of the subtraction period may be carried back and applied to reduce taxable income in any of the previous four years of the subtraction period.

The bill also freezes public service corporations tax rate reductions for four years; repeals the capital tax and defines intangible personal property as: (1) all property previously defined as capital; (2) money; (3) bonds, notes and other evidences of debt, demands and claims; and (4) shares of stock, and imposes a tax of thirty cents per $100 on inventory only; repeals all state business license taxes and provides the local governing bodies with certain licensing and regulatory authority previously applicable to state taxation; restores to federal adjusted gross income for Virginia individual income tax purposes the two-earner married couples deduction allowed for federal tax purposes; and contains a technical amendment to Virginia law that allows a subtraction equal to the expense allowed by federal law in computing the federal child and dependent care credit. Without the technical amendment to child and dependent care credit, some Virginians could subtract 150 percent of their allowable expenditures.

WASHINGTON has neither a corporate nor an individual income tax. Nevertheless, there are important effects which ERTA will have on the Washington economy. The safe harbor leasing provisions of the federal tax code are very important to airline customers of the Boeing Company. The provisions will allow companies in the industry currently experiencing financial hardships to finance the purchase of more efficient aircraft. Cancellation or repeal of these provisions would have a significant adverse impact on Washington's economy.

In addition, Washington state officials indicate that economy and revenue forecasts for the state are based on the assumption that mid-year personal income tax cuts will take place, giving a boost to disposable income and consumer spending.

WEST VIRGINIA recently adopted legislation to uncouple from federal tax provisions and, as a result, will experience a minimum loss of revenue in fiscal 1982. State revenue officials project that the state will neither lose nor gain in fiscal years 1982-86 due to the enactment of this legislation.

The ACRS and the two-earner marriage penalty provisions of ERTA would have been very costly to West Virginia if prompt action had not been taken.

WISCONSIN would have had substantial losses in revenue due to the passage of ERTA. However, modifications were made in existing state law which will offset any revenue loss. Among the steps taken were:

1. Elimination of the corporate deduction for state income taxes;
2. Substituted flat 7.9 percent corporate rate for graduated rates under $6,000 of taxable income;
3. Elimination of the utility tax credit.

Had modifications not been made in Wisconsin, the following revenue losses would have occured:

	Corporate	Individual
1982	$14.3 million	$ 7.9 million
1983	$16.5 million	$29.0 million

The figures for fiscal 1982 would have represented 0.5 percent of the Wisconsin general fund budget (exclusive of capital expenditure).

Wisconsin is coupled to the federal tax code with respect to depreciation.

WYOMING does not have either a corporate or an individual income tax; therefore, no direct effect from ERTA is anticipated. It should be noted however, that Wyoming may experience negligible increases in sales tax revenue as an indirect result.

PUERTO RICO will experience reductions in federal spending, but will not share the benefit of the tax cuts proposed to relieve the economic burden resulting from the budget cuts, mainly because the island is already completely free from paying federal income taxes.

ERTA established extensive reductions in corporate taxes which would reduce the attractiveness of Puerto Rican tax exemption for U.S. based firms and corporations. This has been an important part of the island's industrial development program. These changes would make it harder in the future for Puerto Rico to create additional private sector jobs through attracting mainland investment and capital.

It may be too early to determine the overall impact of ERTA in Puerto Rico. However, the incentives to U.S. business may stimulate new investment in equipment and new products which will ultimately benefit manufacturing in Puerto Rico (mainly in high technology specialized industries such as electronics and pharmaceuticals). In addition, it has been noted that increasing mainland prosperity will permit higher island exports and may bring more tourists to Puerto Rico.

In addition, Puerto Rico's governor made the following statement to the Senate Subcommittee on Savings Revision and Investment Policy concerning the Enterprise Zone Tax Act (S 2298):

> "Passage of the Economic Recovery Tax Act of 1981 has already reduced the attractiveness of this long-standing tax incentive for investment in Puerto Rico. The accelerated cost recovery system, enacted as part of ERTA to provide investment stimulus to U.S. business, has put domestic corporations which conduct business in Puerto Rico at a competitive disadvantage since ACRS provisions, like the investment tax credit, do not apply to property owned or used by possessions corporations. The enterprise zone bill could further reduce the relative attractiveness of operating on the island through a possessions corporation. If the bill is adopted as presently drafted, it would be harmful to the economy of Puerto Rico."

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The Council of State Governments

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